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FM AMEMBASSY BEIJING
TO RUEHC/SECSTATE WASHDC PRIORITY 4175
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INFO RUEHOO/CHINA POSTS COLLECTIVE
RUEHGV/USMISSION GENEVA 1590
RUEHSG/AMEMBASSY SANTIAGO 0247
RUEHIL/AMEMBASSY ISLAMABAD 6511
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RUEHKL/AMEMBASSY KUALA LUMPUR 2425
RUEHGP/AMEMBASSY SINGAPORE 8896
RUEHBK/AMEMBASSY BANGKOK 4979
RUEHML/AMEMBASSY MANILA 8909
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RUEHRK/AMEMBASSY REYKJAVIK 0012

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SUBJECT: CHINA'S FIRST FTA SERVICES AGREEMENT

REF: A) 06 BEIJING 09501 B) BEIJING 0571 C) Manila 0179

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11. (SBU) Summary: China signed its first Free Trade Agreement (FTA) in Services with the ten countries of ASEAN in January, 2007 during the 12th Annual ASEAN Summit in Cebu, the Philippines. While initially opening a limited set of services, the agreement brings China and ASEAN closer to realizing their goal of a comprehensive FTA by 12010. Follow-on packages to expand services sectors are expected over the next several years. According to a Chinese Ministry of Commerce (MOFCOM) trade official, China will submit the FTA in Services to the WTO Notification Committee after consultation with ASEAN countries. End Summary.

China Signs Its First Trade in Services Agreement

12. (SBU) In January 2007, at the 12th ASEAN Summit held in Cebu, the Philippines, China and the 10 ASEAN countries signed China's first Free Trade Agreement in Services. The FTA in Services will enter into force in July 2007. Under the terms of this first package, China will open up 5 service sectors (which include construction, environmental

protection, transportation, sports and commerce) and 26 sub-sectors. ASEAN agreed to open a total of 60 sub-sectors covering finance, telecommunications, education, tourism, construction and medical treatment. Negotiations on a second package expanding the service sectors covered are ongoing, and more packages are expected over the next several years, according to the MOFCOM FTA negotiator.

13. (U) The Free Trade Agreement in Services marks the second phase of China-ASEAN trade negotiations. In 2004 a Trade in Goods Agreement was completed covering 7,000 products. The Agreement was implemented in 2005 and aims to eliminate tariffs on over 90 percent of products. In Cebu, the parties agreed to expedite consultations on the third phase of the FTA which would involve an agreement on investment, a Chinese Foreign Ministry official coordinating the ASEAN meeting said. Further discussions, including expanding the investment agreement to include the ROK and Japan, is expected at the November ASEAN summit in Singapore, according to this Foreign Ministry official (reftel B). Full FTA integration is expected by 2010.

China and ASEAN Flexible

14. (SBU) During the negotiations, China offered five services sectors and 26 sub-sectors to all ten ASEAN countries on an equal access basis. Each ASEAN country tailored its own offerings of services market opening. For example, Thailand agreed to only four sectors while Singapore agreed to seven. (See para seven for website information on the complete agreement.) The MOFCOM FTA negotiator ruefully compared ASEAN's flexibility with the more challenging "comprehensive package deal" approach

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insisted upon by the Australians and New Zealanders in their respective FTA negotiations with China.

China-ASEAN Trade Continues Double-Digit Growth

15. (U) China-ASEAN trade from January to November, 2006 totaled USD 145 billion, up 24 percent year-on-year, according to China Customs statistics. China's exports rose 29 percent to USD 64 billion. Chinese imports grew 20 percent to USD 81 billion. ASEAN was China's fifth largest export market and the fourth largest source of imports from January to November, 2006.

16. (U) Chinese enterprises invested USD 210 million in ASEAN countries from January to September, 2006, according to China Ministry of Commerce statistics. ASEAN countries had actualized investments of USD 2 billion in China totaling 1,610 projects over the same time period.

Filing Expected Pursuant to WTO Obligations

17. (SBU) China and ASEAN have yet to agree on how to proceed with the filing of the Free Trade Agreement in Services with the WTO Notification Committee. The MOFCOM FTA negotiator said that in the past the China-ASEAN FTA on Goods was filed and passed review by the WTO. Her office fielded several questions on the Trade in Goods Agreement from the United States and European Union, she noted. In the spirit of transparency and increasing efficiency, MOFCOM is making available the text of the Free Trade Agreements on their English language website, she added. (Note: the complete text of the China-ASEAN Services FTA and related country-by-country annexes can be found at: <http://gjs.mofcom.gov.cn/aarticle/af/ah/200701/20070104261073.html>)

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